without any real necessity, is the same Méline ministry whose chief showed himself ready for the worst acts of indiscretion for the sake of the greater glory of bimetallism.

The compulsory remelting of which I have spoken is not the only factor to lighten the burden of our stock of écus. The French administration periodically sends silver coins to our various possessions in Africa, especially Madagascar, and this silver never returns. Our situation in this respect will better itself gradually, and I, for my part, consider it less harmful, less disturbing, than Mr. Willis believes it to be. When he expresses the opinion that the Latin Union has proved a failure for those who formed it, he is right in a general way. However, our monetary system, since 1885, has not failed to bring us certain political advantages. The dissolution of the existing union would be less menacing to our finances than to those of Belgium and Italy. And as they well know this, it is a motive for maintaining a friendly attitude toward France. The pervading thought of Mr. Willis is that we shall never be able to recover our freedom of action. In one of the last pages of his remarkable monograph he says: "The Latin Union is doomed to existence in its present condition for an indefinite period." He need not pity us where we do not pity ourselves! Upon the whole for twenty years our monetary policy has often been wiser than that of other states which I could cite. And time, the great master, works for us rather than against us.

ALFRED DE FOVILLE.

PARIS.

OUR NEXT MONEY CONTROVERSY.

RECENT events have emphasized the necessity of a revision of our money and banking systems. The latter, in the words of Mr. Stickney, is no system at all, but simply a group of banks bound together by a very slender thread.[1] There has been a decrease in the national debt, and a piling up of a surplus which it is now proposed to use to still further reduce the government obligations, which must result in a decline in the amount of bonds now used for national bank circulation. In this connection a number of suggestions have been made for the modification of the National Banking system, and in some instances an entire repeal of the National Bank Act asked, in the hope of securing a complete and adequate system of banking.

[1] Speech at Milwaukee, October 16, 1901.

It is proposed that an asset bank currency shall take the place of the present national bank note. In this connection Mr. Stickney's suggestion for a central bank and branches, issuing notes upon commercial assets, has received wide discussion. But a question arises here, political in character, that will modify very decidedly the whole matter of banking currency. That question may be put in this way, Will the people stand for an increased banking currency in the face of the so-called high value and usefulness of the greenback? That this question is not academic, but actually pressing, is indicated in an editorial in the *Chicago Tribune*,[1] which says: "The people have full faith in the $350,000,000 of national bank notes now outstanding. They are secured by government bonds. But if the national debt shall be extinguished and no bond basis remain for bank notes, then the bank will have to cease issuing notes. The people would have more confidence in one thousand millions of greenbacks based on the unfluctuating value of gold in the treasury than in $350,000,000 of bank notes, based on the fluctuating value of bank assets. These assets are made up in part of securities and of industrials, which are above par one day and near zero the next day."

The writer of the editorial has failed absolutely to understand the full meaning of commercial assets, or the true basis of the banking proposition. Canada and Scotland, and Germany to some extent, have not found a currency based on assets to be such a fluctuating one as indicated in the editorial. In fact, there is nothing sounder than true commercial assets for bank notes, viz., the business transactions of a community. The writer has also evidently forgotten that a system of bank notes issued on assets would be accompanied by a provision for a guaranty fund and a system of redemption. He seems to think that the notes would remain outstanding just as the greenbacks do at the present time without redemption, except under panicky conditions. That gold, the reserve of the greenback, is difficult to secure at such times, is also lost upon the writer of this editorial.

The editorial, however valueless it is as a scientific suggestion of what is needed in the United States as a true money system, nevertheless indicates that a very wide-spread opposition exists to a further enlargement of bank note issues on any basis. This supposition is borne out in the attitude of the Illinois Bankers' Convention at Quincy, held recently. In this convention it was manifest that the bankers

[1] Quoted from *Commercial West*, November 2, 1901.

were by no means agreed as to the value of a currency-issue on banking assets. One of the oldest bankers in the state, discussing the matter, said :

We are living under systems of banking both national and state which have been tested as far as it has been permitted, and found to be both useful and safe. It is probable that these systems, as excellent as they are now thought to be, can yet be improved. But in attempting to do this let us not lose sight of the past principles and past experiences, and whatever we attempt let us take no chances of bringing about the return of the days when wildcats, red dogs, and stump-tail currency inundated the country to the great loss of the people.[1]

The president of the Bankers' Association following the speaker quoted above stated :

We may well study the lesson taught in the American Bankers' Association at Milwaukee in the addresses of Mr. Gage, Mr. Stickney, Mr. Eckles, etc. While some may not be willing to endorse all the methods recommended, it was a fearless and able occupancy of advanced courses, and will honor the men who blazed the way. It seems to me that the crying needs of the day are the gradual retirement of the greenbacks, the abolishment of the subtreasury, and an elastic system.[2]

Although the two addresses quoted above do not oppose directly the issue of bank notes on commercial assets, nevertheless it can be easily seen that there is no enthusiastic acceptance of a different method of issuing bank notes than that already in existence. Bankers are so well satisfied in many instances with the present system, and are so conservative that they hesitate to recommend anything that would tend to disturb the existing system. But it is very decidely a question whether at the present time we are not simply holding off the entire issue. In 1896 the people of the country settled fairly well the question of monometalism. But there still remains to be determined a much greater question, viz., the continuance of the greenbacks, and the issue of bank notes in company with a decreasing national debt. What are you going to put in their places ?

In this connection Mr. Eckles, the ex-comptroller of the currency, in a speech before the Chicago Bank Clerk's association, said :[3]

It is not good economics to keep up a national debt, the interest on which must be paid by taxes from the people for the sole purpose of affording a

[1] Quoted in *Commercial West*, November 2, 1901. [2] *Ibid.*

[3] Speech made October 22, 1901.

basis of circulation. We might keep our present bank-note circulation so long as the bonds outstand, but allow a percentage of bank notes in addition, regulated by a tax, and with a safety fund and proper redemption agency. Thus asset bank notes would be equally responsive to the varying interests of business at difficult seasons. For a time we might allow their use only in emergencies. We must reach asset currency by evolution, not revolution, as Mr. J. B. Forgan stated in a very able paper he read at the Bankers' Club the other evening. I feel confident we will see asset currency in this country some day. It will make a scientific substitute not only for present-day bank notes, but for our unsound and costly greenbacks, and for our silver certificates, which are nothing but warehouse receipts for a lot of poor silver stored away in a cellar somewhere in Washington.

The objections to the national bank currency may be summarized briefly as follows: First, the basis is a constantly narrowing one, decreasing as the national debt grows smaller. The answer to this objection is that the national debt is likely to remain as large as it is, and possibly even to increase, but when you remember that at the present time the total surplus for the year 1900 was 80 millions of dollars, it is difficult to reconcile the two statements. The second objection is the inelasticity of the system. The law of March 14th, 1900, modified to some degree the inelastic features, making it possible for a bank to secure an increased currency by the deposit of bonds without waiting a period of six months. But even now it is necessary to buy the bonds, send them to Washington and order your circulation, which takes from three to four weeks as a usual thing. Further than this it is inelastic in that the amount of bonds is limited. Third, in new communities the banks fail to increase their circulation beyond the minimum amount required by the law. The reason for this is that the capital tied up by the bonds can be used to better advantage by loaning it to borrowers. As a result new communities, where there is a good profit from interest on loans, find it difficult to secure the necessary banking currency. The bankers object to furnishing it under present conditions on the ground that it gives them no profit. This statement is borne out by the secretary of the treasury when he says that the net advantage to a banker issuing notes on 2 per cent. bonds is 1.5 per cent., on 3 per cent. bonds of 1908, a profit of .15 per cent., on 4 per cent. bonds of 1907, a profit of .12 per cent., on 4 per cent. bonds of 1905, a profit of .15 of one per cent., on 5 per cent. bonds of 1904, a loss of one-half of one per cent. These figures are

sufficient to maintain the contention of the banker. The problem must be met some way.[1]

Mr. H. D. Baker, in discussing this subject in the *Commercial West*,[2] indicates very clearly the difficulties of the problem.

The framers of the new currency law, in order to postpone the day when the country will have to choose between currency based on bank assets, and a currency consisting wholly of greenbacks or silver certificates, inserted, with the cleverness of a lawyer who wants to keep his case from going to trial, a refunding provision in that law. The 4 per cent. bonds of the government, which were to mature in 1907, amounted to 553 millions of dollars; the annual interest amounted to $22,120,000. In the life time of these bonds, which would have been eight and one-half years, the interest would have aggregated 188 millons of dollars, but by the refunding operation which converted these bonds into a class having a life of thirty years, and paying 2 per cent. interest, the aggregate amount of interest payable before maturity mounts from 188 million dollars to 331.8 million dollars. On this batch the loss was about 143.8 million dollars; on 3 per cent.'s of 1908 a loss of 65 million dollars, and on the 5's of 1904, about 34 million dollars. The aggregate loss on these three was something near 243 million dollars. This, of course, assuming that none of the bonds would be returned before maturity.

The sum of 240 million dollars was a vast sum to plan to pay in order to cause a postponement for thirty years of an unpleasant public dilemma. The fact was that the framers of the law were willing to see the public pay 240 million dollars in order that a final overhauling of the currency system might be delayed for thirty years; yet because of the retirement of bonds necessitated by the surplus and the sub-treasury system, the ugly problem connected with the overhauling promises to forcibly loom up sooner than was anticipated. Only a foreign war and a panic requiring special protection of the gold reserve, or a general policy of national extravagance, can occasion the further bond issue needed to keep these questions in the stage of mere academic discussion.

The whole drift then of the discussion and agitation is in the direction of a different system of banking from the present one. Is it wise to depart from what has already been established and enter into a new field of organization, or is it better to modify the present system by some additions from the new?

In this connection it must be remembered that the right to issue notes on commercial assets must be extended to state banks as well as to national banks. There are something over 4,000 national banks, the number of state banks is still larger, making in the neighborhood of

[1] *Report of Secretary of the Treasury, 1890*, pp. xxxiii–xxiv. [2] Nov. 2, 1901.

9,000 banks engaged in business in the United States. To permit these banks to issue notes on commercial assets must be attended by much danger and great difficulty, and any movement toward asset banking must in its very beginning present some means of avoiding over issue, and in consequence, depreciation of bank notes. It has been proposed to create a central bank with branches, making it possible to use the capital of the central bank, where large assets and resources have been piled up, as the banking capital of the different branches. Such a bank must be either organized by the government or by private individuals. In the first place you would probably have one central bank; in the second, many large banks engaged in so-called branch banking.

Undoubtedly out of the question is anything like a public central bank controlled by the government. The political element that comes into the issue of greenbacks and the maintenance of the gold reserve would predominate even to a greater extent in the organization of a government central bank. The argument to the effect that such a political element is absent from the banks of Germany, France, and England is out of order in the United States, in that the governments named are very different in organization and in power. In the United States the people by their ballots determine in a rough way the policy of the government, and it is very decidedly a question whether they can be relied upon to let a public central bank alone after it has been established. We must therefore rely upon the organization of private central banks if we are to have such a form of banking, and many objections might be urged against a system of that kind. The arguments for a central bank are briefly that the large deposits and vast amounts of specie, now stored in the great banks of the financial centers, would be distributed through branches at the points where capital is most needed, and that there would result as a consequence a building up of commercial relations which cannot now be brought into existence because of the failure of banks to serve the people.

The second argument is the regularity of the currency supply, and the ability of a bank of that kind to gauge accurately the needs of a community for money. Both of these arguments may be granted without further discussion. Nevertheless the question arises, are we ready for a complete system of asset banking, and of the establishment of large central banks in different parts of the country? Certainly it can be urged that such a system scatters reserves over a great territory,

subjecting them to many varying conditions of climate, community, crop returns, and industrial situations, and that the danger of possible failure is therefore greater than under the present system.

Is it not possible, however, to modify the present system in such a way as to secure all of the advantages that come with a banking organization well established? It is stated further that under proper conditions and to a limited degree, branch banking may be permitted to national banks; and second, in order to increase the circulation and its elasticity, permit national banks to issue notes to the extent of 150 per cent. of the bonds deposited by them, under a tax of 3 or 4 per cent., thus making the additional 50 per cent. a sort of emergency currency that can be used in times of difficulty; third, a guarantee fund to protect the additional 50 per cent. of notes, this fund to be based upon some such scheme as that of the New York banking system of the 30's. Fourth, the present redemption system needs enlargement, not abolition, to make it adequate. National bank notes are not lawful money, and cannot be held as reserve required by law. As a result, during those seasons of the year when the movement of currency is toward New York, the banks sort out the national bank notes and send them to Washington for redemption. Here is the very important point of superiority over the greenbacks. The latter remain stationary, and no process of redemption other than that of exchange of gold from the treasury is carried on, and consequently there is an accumulation at the financial centers, producing abnormal credit conditions and stimulating speculation. Since the act of March 14, 1900, the redemption of national bank notes has increased very materially. The total of national bank circulation March 1, 1899, was $242,989,082, and on March 1, 1901, $348,655,256, an increase of about one-third in average outstanding circulation. But at the same time the redemption of bank-note currency has increased about 66 per cent. In this connection one writer says:

Fortunately the ready response of our present system to the increased strain of the past year indicates that it will be found adequate for a still greater activity. A mere increase in the force engaged in counting and sorting notes at Washington would probably enable the agency to handle several times the present volume of business . . . . It is quite probable that if we ultimately secure a bank-note currency based on commercial assets, and thus automatically responsive to business needs, the activity of redemptions may even approximate that of Canada and Scotland, where the entire currency is

redeemed once a month. If so, it is reasonable to expect that a system of redemption through clearing houses or other bank agencies will be developed For the present, however, we need have no fear that the existing system will not properly guard against any material redundancy, so long as the national banks preform their part by keeping bank notes separate from other forms of currency and sending them in for redemption whenever there is no profitable employment for them.[1]

It would seem then from what has been said, that we have the basis of a better system than exists at the present time. What is needed, therefore, is careful legislation introducing a commercial asset system of bank note issue, an enlargement of the redemption agency, and an establishment of a guaranty fund for the increase of bank notes. Such a system would certainly offset the tendency toward the decrease in national bank notes and maintain their proportion in the present system of currency.

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[1] L. C. ROOT, in *Sound Currency*, vol. viii. No. 1, p. 64.